

(Re)Creating the Comfort Zone: From Common Ethnicity towards Commonwealth: The Transnationalisation Process of Malaysian Chinese Small and Medium Enterprises

Esther Zwart

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Abstract Though acknowledging that ethnic Chinese cooperate in networks in which they feel ‘comfortable’, scholars dispute what it is that makes ethnic Chinese cooperate transnationally, and they disagree as to what extent these networks can be regarded as independent of nation-state regimes. Phrased differently, there is no agreement on the contents of this ‘comfort zone’ and on how it is created. Scholarly debate focuses on ethnic Chinese businesses and on the nature of transnationalism, but fails to address the process of transnationalising businesses. By considering the different perspectives on transnationalism, identity and business development among ethnic Chinese, this paper analyses the process of transnationalisation of Malaysian Chinese small and medium enterprises.

Keywords Transnationalism · Ethnic identity · Business development · Chinese Malaysian SMEs · Malaysia

Introduction

Over the last decades, a substantial number of studies have been carried out to try and explain the successes of Chinese businesses. Although these studies have offered

E. Zwart (✉)
Academy of Social Professions, The Hague University,
The Hague, The Netherlands
e-mail: zwarte.sther@gmail.com

explanations for the business success of ethnic Chinese, it is remarkable that most of them do not have an in-depth character, as Gomez et al. state.¹ They are often based on a very small number of case studies of ethnic Chinese families or companies and do not go beyond describing their business strategies. The ‘deeper layers’, such as (family and nation-state) history, context, and the world views of the people involved, are often ignored despite the fact that it is now widely acknowledged in organisation studies that these multi-layered, contextual factors do have a (in)direct influence on business practices.² A company should not only be seen as an objective reality of structures that are implemented and used for survival; at the same time, it is also an association of people, who act in different ways, using diverse systems of logic and insights. Instead of merely examining a company from a ‘system’ perspective, research can also take a ‘life-world’ perspective as its starting point. The latter pays attention to the ‘concrete actions’ of the people within the company. It not only takes into account the formal structures of a company, but also what is actually happening.³ Or, as Tennekes writes, “An organization is a system in which people not only work together, but also live together, spending an important part of their lives there”.⁴

Within the social sciences, it has already been acknowledged that with the help of a more in-depth perspective, including contextual and historical factors, more characteristics of management can be identified. One of the aims of the study on which this paper is based was to generate empirical knowledge about the transnationalisation process of ethnic Chinese SMEs in Malaysia. It will become clear that, for the people studied, transnationalisation is about establishing partnerships with the right people and in the right environment where they feel they can do business the way they are used to. In short, it is all about creating a ‘comfort zone’. It is important to look at the entire transnationalisation process that companies go through, because in creating this comfort zone people learn from their experiences. This paper will take this process as its main focus and address the following question: *How do Malaysian Chinese SMEs constitute their transnational comfort zone?* Before turning to the transnationalisation process, the next section will briefly describe the existing theories about Chinese business success.

The insights presented in this paper are the result of in-depth ethnographical fieldwork among 32 ethnic Chinese SMEs in Malaysia during two research periods in 2003 and 2004. During the sometimes structured and sometimes more conversational interviews, people were given ample opportunity to talk about their opinions, actions and experiences. As a consequence, not only the formal structure and strategies were laid bare, but also the things that ‘really’ happened, including individual manager experiences and the directions in which managers thought the company should move.

¹ Terence Gomez and Michael Hsiao, eds., *Chinese Business in Southeast Asia: Contesting Cultural Explanations, Researching Entrepreneurship* (London: RoutledgeCurzon, 2004).

² See for instance Charles Perrow, *Complex Organizations. A Critical Essay* (New York: McGraw-Hill, 1986); Joan Martin, *Cultures in Organizations. Three Perspectives* (New York: Oxford University Press, 1992); and J. Tennekes, *Organisatiecultuur: Een antropologische visie* (Leuven: Garant, 1995).

³ J. Tennekes, *Organisatiecultuur: Een antropologische visie*. (Leuven: Garant, 1995).

⁴ Translated by the author from Dutch: “Een organisatie is echter niet alleen een samenwerkingsverband, maar ook een samenlevingsverband, waarbinnen mensen een belangrijk deel van hun leven doorbrengen”.

Ethnic Chinese Business Success

Both popular⁵ and more academic⁶ texts on Chinese businesses emphasise the specifics of Chinese culture when explaining their success. They all claim that Chinese culture can be reduced to Confucian beliefs and values, which clarify Chinese social structure and ‘rules of conduct’, and that in a country with no civil law, Confucianism is the base upon which Chinese culture is built. Living in a country with no civil law means that no one can be trusted, and that it is better not to rely on others.⁷ However, people need others to achieve certain goals, and for that reason the Chinese make use of a cooperative network called *guanxi*. “*Guanxi* literally means social relationship or social connection ... and the art in *Guanxi* exchange lies in the skilful mobilization of moral and cultural imperatives such as obligation and reciprocity in pursuit of both diffuse social ends and calculated instrumental ends”.⁸

It is said that Chinese intra-ethnic business networks, based on *guanxi*, have their origin in the ‘Confucian ethic’ in which the family company and paternalistic hierarchy are represented. This Confucian ethic became a popular explanation for the successes of the Asian tiger economies. From the 1970s onwards, scholars began to search for the factors contributing to the success of the Japanese and the rapid growth of the economies of South Korea, Taiwan, Singapore and Hong Kong.⁹ These scholars concluded that most of these countries achieved such good results because of their ‘Chinese’ culture. They defined this as a Confucian way of working, predominated by filial piety, paternalism, collectivism, pragmatism, and networking (*guanxi*).¹⁰ According to Kwok,¹¹ there is something like a ‘discourse on Chineseness’. He understands this discourse as a definition of Chinese identity within the framework of certain underlying concepts and assumptions. These

⁵ E.g. Joel Kotkin, *Tribes. How Race, Religion, and Identity Determine Success in the New Global Economy* (New York: Random House, 1993); and John Naisbitt, *Megatrends. Ten New Directions Transforming Our Lives* (New York: Warner, 1984), *Re-inventing the Corporation. Transforming Your Job and Your Company for the New Information Society* (New York: Warner, 1985) and *Megatrends Asia. Eight Asian Megatrends That Are Reshaping Your World* (New York: Simon & Schuster, 1996).

⁶ E.g. Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin, New York: Walter de Gruyter, 1993); and Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Random House, 1995).

⁷ Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin, New York: Walter de Gruyter, 1993).

⁸ Mayfair Mei-Hui Yang, *Gifts, Favors and Banquets: The Art of Social Relationships in China* (Ithaca: Cornell University Press, 1994).

⁹ See for instance Joel Kotkin, *Tribes. How Race, Religion, and Identity Determine Success in the New Global Economy* (New York: Random House, 1993); John Naisbitt, *Megatrends. Ten New Directions Transforming Our Lives* (New York: Warner, 1984), *Re-inventing the Corporation. Transforming Your Job and Your Company for the New Information Society* (New York: Warner, 1985) and *Megatrends Asia. Eight Asian Megatrends That Are Reshaping Your World* (New York: Simon & Schuster, 1996); Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin, New York: Walter de Gruyter, 1993); and Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Random House, 1995).

¹⁰ Kian Woon Kwok, “Being Chinese in the Modern World,” in Lynn Pan, ed., *The Encyclopedia of the Chinese Overseas* (Cambridge, Massachusetts: Harvard University Press, 1998), 125.

¹¹ Ibid.

concepts and assumptions are slowly accepted and transformed into common knowledge. Kwok states: “In a discourse, the words tell one not so much ‘this is how things are’ as ‘this is how you should look at it.’ By limiting and influencing the terms in which Chineseness is viewed, discourses close off alternative ways of seeing the Chinese”.¹²

The so-called culturalists state that for ethnic Chinese, intra-ethnic cooperation is of more importance than national borders and in that way they strongly emphasise the transnational orientation of ethnic Chinese companies. This Chinese transnationalism largely entails the individual Chinese partaking in a larger whole, superseding geographical borders,¹³ a ‘zone’. According to Ong,¹⁴ ethnic Chinese are interlinked in financial networks that form a ‘Greater China’ in the sense of “a transnational space where capital and race are interbraided and brothers long scattered in Diaspora are brought into association (...)”. Thus, it is believed that a shared ethnic identity is the common factor on which the transnational links of the Chinese are based. According to the ‘culturalists’, business is therefore done among like-minded partners; in other words, it is situated within an intra-ethnic comfort zone. Because of these transnational ethnic links, state borders do not interfere when business is being done.

This is a rather essentialist way of looking at identity, since it presumes a territorial attachment towards the ‘home-country’ “in which identity is directly related to ‘origin’ and thus to ‘roots’”.¹⁵ In this essentialist way of looking at identity, transnational groups are often described as experiencing multiple citizenships and dual identities. It is believed that a consequence of this duality is the limited integration of the ‘immigrant’ group into the ‘host country’.¹⁶ In the case studied here, it is thought that ethnic Chinese living outside China still feel an attachment to the ‘home country’, China. This duality suggests that the identity of ethnic Chinese living in Malaysia is still Chinese, in line with how the Chinese in China see themselves. This should be questioned, however, because the people with whom I interacted for this research have already lived in Malaysia for many generations. Most of the people interviewed were second- or third-generation Chinese in Malaysia. Moreover, since the Communists took power in China in 1949, the Chinese nation state has been closed to ethnic Chinese living outside China. Thus contacts between ethnic Chinese living in Malaysia and their supposed ‘home country’ have in fact been rather limited for some time. We should first question whether the integration of ethnic Chinese within Malaysia has been limited on

¹² Ibid.

¹³ As described by Manuel Castells, *The Information Age I: The Rise of the Network Society*. (Oxford: Blackwell Publishers, 1996); Aihwa Ong and Donald Nonini, eds., *Ungrounded Empires. The Cultural Politics of Modern Chinese Transnationalism* (New York, London: Routledge, 1997); and Aihwa Ong, *Flexible Citizenship. The Cultural Logics of Transnationality* (Durham, N.C.: Duke University Press, 2000).

¹⁴ Aihwa Ong, *Flexible Citizenship. The Cultural Logics of Transnationality* (Durham, N.C.: Duke University Press, 2000), 65.

¹⁵ Halleh Ghorashi, “How Dual Is Transnational Identity? A Debate on Dual Positioning of Diaspora Organizations,” *Culture and Organization* 10:4 (2004), 329.

¹⁶ Steven Vertovec, “Transnationalism and Identity,” *Journal of Ethnic and Migration Studies* 27:4 (2001), 573–582.

account of their attachment to China, and whether they themselves still feel Chinese, that is, feel that they belong in China.

Recently, research has shown that in former studies, culture was predominantly ‘essentialised’—too much emphasis was put on the specifics of Chinese culture. In contrast, the authors of more recent contributions argue from a ‘capitalist’ perspective, also called ‘the organizational imperative’, meaning that “Chinese business practices are similar to those of Western businesses under comparable conditions”.¹⁷ According to them it is not the specific ‘Chinese’ culture that has led to the success of Chinese businesses, but—as in the case of other companies—the way(s) they developed strategies to survive in a competitive market. Many companies owe their existence to the post-1980 booming Asian economy. Thus instead of ‘believing’ in a distinct Chinese business culture based on a strong collective identity, these scholars reason that ethnic Chinese companies have used the right business practices at the right time and in the right place in order to ensure their survival.

This inevitably makes one wonder how exactly these ethnic Chinese businesses have been able to use the right practices at the right time. Hamilton¹⁸ ascribes this to the interdependence between culture and capitalism. Family and *guanxi* networks can stimulate ethnic Chinese businesses in their quest to survive in the (world) market. Therefore Hamilton¹⁹ speaks of the ‘embeddedness’ of the Chinese culture in the economy and vice versa. What he means by this is, in fact, the interdependence of culture and capitalism.

It is striking that only a few studies consider the impact national regulations and (economic) policies can have on business practices. Gomez²⁰ has taken a first step with his plea to take the political economy into account when studying businesses because he found that companies in Malaysia establish patronage relationships with important actors within the Malaysian government to guarantee business survival and success. But sufficient knowledge about the history and development of (in this case) Malaysia into the nation state that it is today, as a factor directing or perhaps even determining business behaviour, is still lacking.

Moreover, if the institutional and historical context of the ‘host country’ must be taken into account when studying the transnational practices of the ‘immigrant’ group, in the case of the transnational practices of ethnic Chinese living in Malaysia it might be hard to speak of a dual identity. As Ghorashi²¹ argues, transnational activities are more “about creating a position in ‘here’ (read: the new country) than

¹⁷ L.-Y. Chang and T. Tam, “The Making of Chinese Business Culture: Culture versus Organizational Imperatives,” in Edmund Terence Gomez and Michael Hsiao, eds., *Chinese Enterprise, Transnationalism, and Identity* (New York: Routledge, 2003), 33.

¹⁸ Gary Hamilton, “The Economic Organization of East Asian Capitalism,” in M. Orrù, ed., *The Economic Organization of East Asian Capitalism* (Thousand Oaks: Sage, 1997); Gary Hamilton, ed., “Culture and Organization in Taiwan’s Market Economy,” in Robert Hefner, ed., *Market Cultures. Society and Morality in the New Asian Capitalisms* (Boston: Westview Press, 1998).

¹⁹ Gary Hamilton, “Culture and Organization in Taiwan’s Market Economy,” in Robert Hefner, ed., *Market Cultures. Society and Morality in the New Asian Capitalisms* (Boston: Westview Press, 1998), 12.

²⁰ See Edmund Terence Gomez, *Political Business in East Asia* (London: Routledge, 2002).

²¹ Halleh Ghorashi, “How Dual Is Transnational Identity? A Debate on Dual Positioning of Diaspora Organizations,” *Culture and Organization* 10:4 (2004), 330.

about dwelling between ‘here’ and ‘there’ (read: the country of origin), as is often assumed. The focus therefore lies on the diversity of meanings related to a shared common background that is by no means homogeneous or static”. In this way identity is seen as ‘hybrid’²² or ‘hyphenated’.²³ It is interesting that Ghorashi—who studied Iranian refugees in Los Angeles—has found that the construction of their identity is about sameness and differentness simultaneously. This might be even more the case for ethnic Chinese in Malaysia who have been living in Malaysia for generations and who have been brought up in the same context as the other inhabitants of Malaysia. In other words, although they are a *different* ethnic group in Malaysia, they share the *same* context.

Learning by Experience: The Transnationalisation of Malaysian Chinese SMEs

In this part, the general process of (re)creating the ‘comfort zone’ by Malaysian Chinese SMEs is described in the context of theories about ethnic Chinese businesses in order to establish similarities and differences between the transnationalisation strategies and practices of ethnic Chinese businesses in general on the one hand, and ethnic Chinese Malaysian SMEs on the other.

Expectations

A Choice of a Country: Ethnic Affiliation

It is remarkable that the choice of a specific country in which to invest has less to do with the presence of a possible market for the products or services of the companies, even though this factor (the absence of such an adequate market) is the main reason for leaving Malaysia in the first place, but has more to do with the ethnicity of potential partner(s) and/or customers. The countries into which businesses venture are mainly those where business is in the hands of ethnic Chinese (81% of the companies interviewed). Informants explained that they went to these countries because they were looking for a feeling of ‘comfort’, and expected to find a business ‘climate’ in which business could be done in the same way as in Malaysia, i.e. in a way they were used to.²⁴ Most informants used the word *comfort* to describe this.

Where does this idea of intra-ethnic comfort come from? As we have seen, the literature suggests that ethnic Chinese cooperate intra-ethnically within networks.²⁵ Some scholars argue that ethnic Chinese businesses in the more ‘traditional’ sectors,

²² Ibid.

²³ Yasmin Hussain, *Writing Diaspora: South Asian Women, Culture and Ethnicity* (Hampshire: Ashgate, 2005), 5.

²⁴ It will become clear from this paper that what people think is their way doing of business.

²⁵ As described by Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin, New York: Walter de Gruyter, 1993); Gary Hamilton, ed., *Asian Business Networks* (Berlin: Walter de Gruyter, 1996); and Laurence Ma and Carolyn Cartier, eds., *The Chinese Diaspora. Space, Place, Mobility, and Identity* (Lanham, Boulder: Rowman & Littlefield Publishers, Inc., 2003).

e.g., manufacturing, cooperate within family-based networks in which the concept of family can stretch beyond the Western definition and can therefore also include distant family, clan lineage, dialect group and hometown associations. Companies in the service sector are also believed to be involved in networking, but these companies are said to cooperate mostly with non-related companies such as acquaintances met through education (e.g. alumni) or contacts established through former colleagues, such as ex-employers and former business relations. As explained, the culturalists argue that these intra-ethnic networks facilitate business for ethnic Chinese because the shared identity and culture teach them how to behave and how business is done by ‘the other’.²⁶

Interestingly, during the first phase of transnationalisation, the companies central to this research sought ‘comfort’ in ethnic affiliations (88% of the companies studied). They held a ‘culturalist’ idea about how to establish a ‘comfort zone’ when transnationalising their businesses. The countries ventured into initially were geographically close, mostly Southeast Asian countries with large numbers of ethnic Chinese or a government favourable to ethnic Chinese. These two reasons—proximity and ethnicity—made it seem that Southeast Asia was one big ‘comfort zone’, except for a few countries whose political or economic climate was not suitable. For example, although Indonesia has a large ethnic Chinese population, government policies towards Chinese have excluded this country from the ‘comfort zone’. China, on the other hand, seemed to be the ‘comfort zone’ *par excellence*. Surely the population of China consists mainly of ethnic Chinese. Moreover, China was—and is still—seen as an economically up-and-coming country.

In contradiction to the ‘culturalist’ argument, the companies in this research made less use of ancestral ties (i.e. going back to one’s roots) when designing their transnational strategies. In fact, only one managing director considered his ancestral relatives as possible business partners.

The companies have sought partners within the ranks of, or with the help of, former classmates, employees or colleagues. Thus, intra-ethnic networks formed the base of the initial transnational strategies of Malaysian Chinese SMEs, but ethnic affiliation was not sought through family ties, lineage, dialect group or hometown associations, but rather through contacts from people’s professional lives. Therefore the countries that Malaysian Chinese SMEs ventured into initially—based on their expectations about the credibility of ethnic Chinese partners—were those countries where most businesses were in the hands of ethnic Chinese.

Direction by Government Sponsorship and Policies: Transnationalism

While building the Malaysian nation-state, the Malaysian government has had a major influence on the (ethnic Chinese) businesses since independence, through its

²⁶ For a more elaborated description see Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin, New York: Walter de Gruyter, 1993); Constance Lever-Tracy, David Ip and Noel Tracy, *The Chinese Diaspora and Mainland China. An Emerging Economic Synergy* (Basingstoke: MacMillan Press, 1996); Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Random House, 1995); Henry Yeung and Kris Olds, eds., *The Globalization of Chinese Business Firms* (London, New York: Pelgrave Macmillan, 2000).

(economic) policies [e.g. New Economic Policy (NEP), New Development Policy (NDP), Vision 2020]. Although the Asian values debate was at first political, it also had an economic outcome. The Malaysian government emphasised that Asian countries would make perfect business partners because they shared similar values. These values were at first extracted from Confucian values and although the focus on Confucianism was later replaced by a Japanese way of working, this governmental emphasis, especially through stimulating business in China, has increased or initiated feelings of ‘comfort’ among ethnic Chinese businessmen in Malaysia with regard to doing business in countries where most businesses are owned by ethnic Chinese.

As said, the government subsequently replaced Confucianism with an emphasis on the ‘Japanese way of working’, which was incorporated when Mahathir Mohammad became prime minister in 1981. In general this ‘Look East Policy’ had two outcomes for the companies studied. Many Malaysian SMEs act or have acted as subcontractors for Japanese multi-national corporations (MNCs) (22% of the companies interviewed). Second, Malaysian companies, including SMEs, could become part of bigger projects by submitting a government tender—the Malaysia Incorporated policy. A prerequisite for getting these tenders was having ‘Bumi status’ (41% of the interviewed companies).²⁷ Various managers told me that their Bumi partner was in fact a silent partner. This silent partner usually did not interfere with corporate operations.

Mr. Sim, Executive Director of a paper mill, a subsidiary of a (family) holding involved in the paper business: [A]nd this Malay partner is only in 1984. Right? When the holding was listed in the KL stock exchange. And I think you know that once we got listed [the holding] we needed a Malay partner and that’s why he came in 1984.

Not every company opted for a Bumi partner; some tried to get around this rule by not aiming at the Malaysian market but instead extending their business into foreign markets. Sixteen per cent of the companies interviewed opted for this solution.

Mr. Hi, Managing Director of a trading company in semi-conductors: I think Malaysian Chinese companies have a tendency to be more outward looking. It is all an issue of survival, eh? I mean, if I am a Malay businessman I can get business from the Malaysian government, so why bother to look outward? It is all necessity. Necessity becomes sometimes new strength in people, like we cannot find a living here or you have to compete with a Malay company who gets easier government contracts, and for you it is harder to get a government contract, then our necessity is to look out.

In addition to the direct influence that government policies had on the lives and businesses of ethnic Chinese in Malaysia, they also had a side effect. Discriminatory policies, which were chiefly initiated by the bumiputeras, such as the tertiary

²⁷ ‘Bumi status’: Companies had to have a *bumiputera* director in the management. *Bumiputera* literally means ‘sons of the soil’ usually referring to the Muslim Malay inhabitants of Malaysia.

education quota system²⁸ and the ‘Bumi status’ companies had to have, identified ethnic Chinese Malaysians as a separate ethnic group, even though they had been granted citizenship at independence and had been living in Malaysia for ages. Ethnic Chinese Malaysians knew they could not rely on a government which as a matter of policy favoured Malays (i.e. to the deliberate disadvantage of Chinese Malays) and Islam (practiced by only very few Chinese). This means that when transnational strategies were first designed, reliable partners were sought within their own ethnic group. Ethnic Chinese partners were preferred, and therefore countries in which partners were most likely to be Chinese were targeted as the best prospects for transnationalisation.

Ms. Lock, Managing Director of Multichem, a (family) trading company: I want to sell in the region. Hong Kong, Singapore, Thailand, Indonesia. And what we do is that the products that we are doing, the people in Indonesia and Hong Kong and most of the countries in Southeast Asia are all connected by the Chinese, the overseas Chinese network. We want to make use of the network to sell our products.

Yes, it [the network] exists for us, at least. But anyway, when we go into Thailand or Indonesia, I am mainly only dealing with the Chinese community of that country as well.

There is comfortability within the network.

What Ms. Lock describes is a preference for cooperating intra-ethnically because inter-ethnic cooperation within Malaysia had turned out to be very complicated. Discriminatory policies caused many ethnic Chinese in Malaysia, although they were Malaysian citizens, to feel that they were not truly Malaysian, that they did not fully belong in and to Malaysia. Most of the people I interviewed had very outspoken ideas about this. One company even changed its name because its owners feared that their existence would otherwise not be guaranteed, as the following diary fragment shows.

March 12th 2003. Today I visited ESLLC. At first Mr. Chin, the professional General Manager, did not want to tell me what the name ESLLC meant. Only after a couple of hours and after showing me around he told me that the name of the company was in fact the name of the two founding fathers of the company, but that they did not use the name anymore, because it sounded too Chinese. They have many foreign and Malay customers and they were afraid these customers would not want to do business with them anymore because they know the policies of the Malaysian government.

The fact that Chinese Malaysians were treated differently made it difficult for them to see Malaysia as their ‘homeland’; however, since they had been living outside China for generations, they also did not feel fully Chinese. The concept of homeland should not be used carelessly. Many interviewees felt they did not completely belong in Malaysia (93%), but also did not feel at home in China, exactly

²⁸ For many Chinese it is not possible to go to a university in Malaysia because of a quota system favouring the Bumiputera.

like it is often argued in the home- and host-land debate.²⁹ Generally, the management-owners of the SMEs expected to feel at ease with other ethnic Chinese, as well as in countries that did not discriminate against ethnic Chinese. Dr. Wang admitted the following with respect to doing business in Thailand:

I think Thailand is much more liberal [than Malaysia]. In many ways. They do not have problems, whether you are Chinese or whatever. So, Chinese have no opportunity here in [Malaysia]. Racial tendency, racial problem. Maybe because of the government policies. I think so. I think that racial issues ... In a sense it is quite difficult here. Difficult to trade, you always have to have some, think of ways to satisfy the requirements, the demands of each of the ehhe races. So, there is a lot of racial problems, but Thailand does not have this problem. And then it is more ... Thailand accepts foreigners, like the Americans, like the British who settled down there ...

Consequently, the feeling of belonging, normally associated with the homeland, has in this case more to do with the ethnicity of the people living in a country than with the country itself. The people studied expected themselves to feel at home when among other ethnic Chinese.

Mr. Lake, Managing Director of EZ Retail Solutions, a branch office of the Gold Pond Group: I think there is something called a home. You feel comfortable in a place which is more similar or familiar to you. If you are in an environment where the music is familiar to you, the food is familiar to you, the language is familiar to you, you feel comfortable. You feel at ease, right? You don't have to learn too much. When I go to China or when I go to Singapore, I feel very comfortable because of the food, I don't have to worry about the food. I don't have to worry about the language, so that makes it easier. But then, the place where you have your social groups and so on, your support group, your family, your friends, you feel comfortable right? Everything else is not important, you know? Of course you need some place where there is legal protection for your property or you acquire property, or you invest your life, so you want to be protected. So, I don't care if that's Malaysia or Singapore.

In general it can be said that although the companies studied for this research were quite 'hybrid' in their way of working, their *initial* transnationalisation strategies were fairly traditional. They set up a business in those countries where it was most probable that they would be able to cooperate with ethnic Chinese, thus intra-ethnically. Then when searching for cooperation partners they contacted family members, former schoolmates, 'friends', (former) colleagues, or existing business partners. It was expected that by cooperating within these intra-ethnic networks, conducting business would be 'comfortable'; things would go in the direction both

²⁹ This debate is thoroughly described by Ien Ang, *On Not Speaking Chinese: Living between Asia and the West* (London: Routledge, 2001); Laurence Ma and Carolyn Cartier, eds., *The Chinese Diaspora. Space, Place, Mobility, and Identity* (Lanham, Boulder: Rowman & Littlefield Publishers, Inc., 2003); and Steven Vertovec, "Transnationalism and Identity," *Journal of Ethnic and Migration Studies* 27:4 (2001), 573–582.

partners wanted, since as ethnic Chinese, they shared the same values and supposedly would understand each other.

Experiences: (Re)creation of the Comfort Zone: From Common Ethnicity towards Commonwealth

Contrary to the companies' expectations, intra-ethnic cooperation did not create the expected 'comfort zone'; instead, each firm encountered various problems. In general these can be categorised under two headings: fraudulent partners and employees, and fraudulent officials. Both stem from the national institutional context where business is in the hands of ethnic Chinese. The companies studied discovered that although business partners and sometimes even officials might be of Chinese descent, their working ethics differed greatly. Contracts turned out to be worthless, officials did not act according to the rules and the law, partners and/or employees ran away with company secrets and, most importantly, according to the managers, there was no possibility to go to court for redress. Worse, these people's behaviour was the result of government policies and was developed as a way to survive within that context. Therefore, the people studied did not get the 'comfort' they expected to get, and it turned out that it was impossible to create a 'comfort zone' in these countries.

The transnational strategies of Malaysian SMEs slowly changed from intra-ethnic cooperation to inter-ethnic cooperation, as becomes evident from their selection of different countries into which to venture. These 'new' countries were not chosen randomly; the selection process involved defining their own way of working as compared to expected ways of working in the countries in which they wanted to invest. This time the idea of doing business according to ethnic Chinese values and ethics was abandoned; instead, the institutional environments of the countries the Malaysian companies sought to venture into were taken into account. More specifically, for 32% of the companies surveyed, only countries like Malaysia (i.e., part of the Commonwealth³⁰) were considered as possible business locations. Past experiences caused these nations to be regarded as 'comfortable' because their institutional context was considered the same as the Malaysian one. In particular, sharing the same legislative system, with the ability to fall back on—familiar—rules and well-developed regulations, was appreciated.

Ms. Lock, Managing Director of Multichem, a (family) trading company: And then we realized that trading within the region is hard, because Malaysia was historically linked to Singapore, or Singapore was linked to Malaysia. So we established offices in Singapore, because of Commonwealth, the British Colonies. Hong Kong is another base you see? Language and Commonwealth countries. Yeah. That is of course the first, you know?

³⁰ An association of nations consisting of the United Kingdom, its dependencies, and many former British colonies that are now sovereign states with a common allegiance to the British Crown, including Canada, Australia, Hong Kong, Singapore and Malaysia (<http://www.answers.com/topic/commonwealth-of-nations>).

Companies in countries with identical contract law will generally act and behave according to the contract because if they do not, it is possible to go to court if a business partner or client does not act as specified by the contract. This legal safety net reinforces the expectation that most partners will meet contract obligations because they do not want to get sued. A sound legal system also means that if a partner behaves criminally there is a good chance of recovering stolen funds. In short, these contract laws create ‘comfortability’.

Besides Commonwealth countries like Hong Kong, India, Australia and the United Kingdom, other Western countries are also of increasing interest to 28% of the SMEs interviewed. They regard Western countries (and companies from these countries) as having the same business values and ethics as they themselves, as Malaysian companies, do, as a result of Malaysia’s British history and due to a trustworthy legislative system and the English language. Still, not all SMEs are able to expand to the West, due to a lack of financial resources.

Mr. Loh, President of Sow Bakery: It’s much more clarified in law [in the West]. And people are much more ... you know? When they negotiate a contract, after they have negotiated a contract, they confirm the contract. So, people in advanced countries do that. They sit down and talk to you about the contract, and then they respect their contract. They will adhere to the contract. You know? While people in developing economies tend to be less respectful of the contract. Alright? They come and negotiate a contract with you and after that they, you know? They might not confirm the contract. And then of course, because you are operating in countries where you are not so familiar with the legal systems and so on, there is a lot of hassle and time, you know, legally. You tend to not do it, you know. If people, I mean it might not be worthwhile for you to go to court. Because you don’t know how it works, how much it costs and so on, and so on. So it is, things are definitely more clear-cut in developed countries. In the U.K., U.S., Australia and Hong Kong things are more clear-cut.

Companies that do not have sufficient financial resources to invest in the West or the Commonwealth by themselves have not given up on the idea of putting their products into Western markets. Instead, they might use an intermediary from Hong Kong (40%). Singaporean companies are also used as intermediaries, but to a lesser extent (28%), most probably because of the historically problematic relationship between Malaysia and Singapore.³¹ Hong Kong companies are believed to be more advanced; they are considered to have much more experience in Western markets. Apart from that, Hong Kong is also a former British colony, a Commonwealth nation and therefore a country in which the institutional environment can be trusted and English is spoken, a comforting thought.

³¹ Before 1965 Singapore was a part of the Malaysian Federation, but the process of nation-building after independence did not work out as expected. The Chinese inhabitants felt like second-class citizens and considered their economic future uncertain. The situation became so insufferable that in August 1965 it was decided that ethnic-Chinese-dominated Singapore had to leave the Malaysian Federation.

Obviously not all companies opted to venture into the West or into a Commonwealth country. Limited financial resources were the main reason for this. Mr. Lah of Alomen recounts his company's decision not to enter the U.S. market.

It is comfortable to do business with the U.S. You send the product and they send the money, but ... The exchange rates, they do matter!! Can't really afford to buy.

Although Mr. Lah still does business with the Netherlands he is seriously thinking of abandoning this as well, due to Euro exchange rates.

Some of the countries that turned out to be disappointing business partners were still seen as important future players (e.g. China), and the companies did not want to abandon them completely. However, in these cases they did give up on intra-ethnic cooperation by establishing fully-owned companies and sending their own people, or by using an intermediary. These intermediaries were mainly chosen because of their Commonwealth background. Remarkably, the effect of the transnational experiences of ethnic Chinese living in Malaysia has been that they have started to feel more Malaysian. Contact with other ethnic Chinese has made them more aware of Malaysian history and political dynamics. In this respect, institutional and historical contexts have proven to be important,³² but the transnational experiences have turned Malaysia from a 'host country' into a 'home country'; Malaysia itself being the essential identity marker for Chinese Malaysians. When I interviewed many interviewees again after more than a year, they told me what Mr. Tan, the Managing Director from Ear4Ear, had declared: "Once and for all, I'm Malaysian".

As Mr. Huang, Deputy Managing Director of CassetteOrg, put it: "Maybe before it was different, but now I think we are Malaysian. Now we think more multi-racial. It is not us Chinese and those Malays".

Networking

All the companies studied somehow make use of networks and 'introduction by' techniques while extending their businesses across the Malaysian border. As the literature suggests,³³ the companies studied draw on the expertise of a partner in an environment with which they themselves are not familiar. Even though their initial transnational strategies were also based on establishing partnerships, this was mainly due to limited financial resources. Their first transnational experiences made these

³² See for instance Ien Ang, *On Not Speaking Chinese: Living between Asia and the West* (London: Routledge, 2001); Laurence Ma and Carolyn Cartier, eds., *The Chinese Diaspora. Space, Place, Mobility, and Identity* (Lanham, Boulder: Rowman & Littlefield Publishers, 2003); and Smadar Lavie and Ted Swedenburg, eds., *Displacement, Diaspora, and Geographies of Identity* (Durham: Duke University Press, 1996).

³³ S.-L. Wong, "Chinese Entrepreneurs and Business Trust," in Gary Hamilton, ed., *Asian Business Networks* (Berlin, New York: Walter de Gruyter, 1996); E. Chen and Gary Hamilton, "Introduction: Business Groups and Economic Development," in Gary Hamilton, ed., *Asian Business Networks* (Berlin, New York: Walter de Gruyter, 1996); H. Holbig, "Trust and Its Limitations: A Changing Discourse on Money during the People's Republic of China's Reform Period," in Chan Kwok Bun, ed., *Chinese Business Networks. State, Economy and Culture* (Singapore: Prentice Hall, 2000); W.-P. Wu, "Transaction Cost, Cultural Values and Chinese Business Networks: An Integrated Approach," in Chan Kwok Bun, ed., *Chinese Business Networks. State, Economy and Culture* (Singapore: Prentice Hall, 2000).

companies aware that partners within the network sometimes could not be trusted, although they were thought to hold the same work ethics and values stemming from a shared culture. Moreover, the unknown business environments turned out to be more hostile than first expected. In sum, the institutional and legal contexts of these foreign countries have shown that ‘the other’—partners within the network, as well as third parties—cannot be trusted. Consequently, as Chan³⁴ has argued, the key issue is not so much trust within the network, but distrust outside of it. Callahan³⁵ suggests that cultural ties cannot be used to lower transaction costs in countries where the legal system is underdeveloped, but ties based on a shared (institutional and legal) history can. Therefore, in later phases of the transnationalisation process, network ties were built around this experience.

Intermediaries and partners within these newly formed networks were still mainly found through personal—but not necessarily family—contacts. Sometimes these partners had already worked together within the country in which they resided, and sometimes companies got to know intermediaries through other partners or intermediaries.

Ms. Lock, Managing Director of Multichem, a (family) trading company: It is all by recommendation. We tend to work by recommendation, you see? Then, because you are doing recommendation you will short-cut the process. If you are recommended by somebody, or if somebody is recommended by you that they are doing well, they just say that they are good people to work with and you go ahead.

The way to find an (intermediary) partner is, therefore, identical to the way partners were sought within the intra-ethnic group, namely through strong linkages,³⁶ such as business partners, former schoolmates or other ‘personal’ contacts. In short, partners and intermediaries are largely found through the technique of ‘introduction by’, which according to the literature is a typical traditional ‘Chinese way’ of networking. When studying Chinese businesses, the cultural aspect should be de-essentialised because, although ‘Chinese methods’ are used, this cannot be classified as intra-ethnic cooperation within the networks.³⁷ It is

³⁴ Chan Kwok Bun, ed., *Chinese Business Networks. State, Economy and Culture* (Singapore: Prentice Hall, 2000), 9.

³⁵ William A. Callahan, *Diaspora, Cosmopolitanism and Nationalism: Overseas Chinese and Neo-Nationalism in China and Thailand* (Southeast Asia Research Centre Working Papers Series, No. 35, 2001).

³⁶ Gordon Redding, “Weak Organizations and Strong Linkages: Managerial Ideology and Chinese Family Business Networks”, in Gary Hamilton, ed., *Asian Business Networks* (Berlin, New York: Walter de Gruyter, 1996).

³⁷ More about de-essentialising the cultural aspect can be found in Michael Jacobsen, *De-linking the Chinese Diaspora. On Manadoese Chinese Entrepreneurship in North Sulawesi* (Hong Kong: SEARCH, City University Hong Kong, Working Paper Series no. 60, 2004) and *Cross-Border Communities and Deterritorialising Identities. Assessing the Diaspora Triangle: Migrant-Host-Home* (Hong Kong: SEARCH, City University Hong Kong, Working Paper Series no. 19, 2002); Edmund Terence Gomez, *Chinese Business in Malaysia. Accumulation, Accommodation and Ascendence* (Richmond: Curzon Press, 1999); and L.-Y. Chang and T. Tam, “The Making of Chinese Business Culture: Culture versus Organizational Imperatives,” in Edmund Terence Gomez and Michael Hsiao, eds., *Chinese Enterprise, Transnationalism, and Identity* (New York: Routledge, 2003).

not a strong collective identity³⁸ that influences the ‘way of doing business’, but the institutional and historical background of the Malaysian Chinese and the ‘other’. Thus, although I plead for a de-essentialisation of the cultural aspect, I am not arguing that the companies studied here act purely on the basis of a profit motive, because in order to make money they first attempt to create a ‘comfort zone’ in which they feel comfortable enough to do business.

Conclusion

The aim of this paper was to find out how ethnic Chinese manager-owners of SMEs in Malaysia design their comfort zone. Because of their limited financial resources, the companies studied in this research tried to find ways to bring their products and services across the Malaysian border—thus extending their market—with as little risk as possible. They believed that if their businesses were situated within the comfort zone, they would know what to expect and how to do business. This comfort zone would require fewer preliminary financial resources because either the companies or their partners would know the market well. Consequently, the costs resulting from mistakes were also believed to be lower within the comfort zone.

So far, these research findings are in line with the culturalists’ viewpoint. However, the foundation upon which ethnic Chinese SMEs in Malaysia have built their comfort zone is not in agreement with their argument. The companies studied were hugely disappointed in their initial transnational cooperation strategy based on ethnic identity. Having learned from their experiences, the companies in this study subsequently formed their transnational networks around partners with the same institutional and legal context, and not, as the culturalists predict, around partners with the same ethnic background.

Whereas capitalist scholars believe that the networks formed by Malaysian Chinese SMEs are established rationally in order to guarantee their existence, the findings in this study show that these networks might be rational but they are strongly inspired by shared values, specifically values stemming from a joint historical context.

When considering this experience, the managers in the companies discovered that their own business behaviour had actually been shaped by the institutional and historical context in which they had grown up. In other words, Malaysian Chinese companies came to the conclusion that *their own* ethnic identity did not help them when transnationalising their business. Consequently, their business identity was not solely ethnically based.

The above entailed the companies realising that their actions stemmed from a *Malaysian* identity shaped by Malaysian historical and institutional forces. An important influence in this regard was Malaysia’s British past and its being part of

³⁸ As stated by Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin, New York: Walter de Gruyter, 1993); Constance Lever-Tracy, David Ip and Noel Tracy, *The Chinese Diaspora and Mainland China. An Emerging Economic Synergy* (Basingstoke: MacMillan Press, 1996); Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Random House, 1995); and Henry Yeung and Kris Olds, eds., *The Globalization of Chinese Business Firms* (London, New York: Pelgrave Macmillan, 2000).

the Commonwealth. Therefore, the companies called upon the history of Malaysia—the implementation of British legislation, the membership of the Commonwealth and the English language—to explain their ‘Malaysianness’.

Moreover, the companies realised that this—Commonwealth—background is the origin of their business ethic and therefore their transnational business practices. When first designing their transnational strategies, the Malaysian Chinese did not take into account that not every country with a large group of ethnic Chinese businesspeople has a legislative system like Malaysia. Their transnational practices taught them that ethnic identity does not automatically lead to trustworthy intra-ethnic partners. Finding a legislative system like the one they were used to in Malaysia turned out to be more important. This clash with other (sometimes non-existent) legislative systems increased their sense of ‘feeling at home’ in Malaysia, and helped them to discover that they had in fact a Malaysian national identity. It had become time for them to separate trust from ethnic identity.

In sum, the initial transnationalisation strategies of the companies studied here corresponded entirely with the culturalist perspective because partners were sought from among the same ethnic group. Practice, however, has shown otherwise, and therefore although partnerships are still established along identity-sharing lines, the identity in question is no longer ethnic, but Malaysian, marked by a common British past. It has become apparent that Malaysia, especially its historical and institutional context, frames the owner’s (business) identity and behaviour. It can thus be deduced from these transnational problems and failures with respect to ‘others’ who were first believed to be ‘one of us’ (because they shared a Chinese ethnicity) that the actions of Malaysian Chinese are in fact largely shaped by their national identity and only to a much lesser extent by their ethnic identity, as was first believed. However, academic literature from the ‘cultural angle’ still includes this ethnic Chinese identity component when explaining the specifics and successes of ethnic Chinese businesses. Moreover, these scholars still consider the intra-ethnic ties of the Chinese scattered around the world as the original source of their transnational actions. As this research has shown, it is time to acknowledge that the ‘empire’ of the ethnic Chinese—or at least of the ethnic Chinese SME managers within Malaysia—is thus not as ‘ungrounded’³⁹ as is often asserted in the literature about Chinese transnationalism. Their transnational ‘empire’ also consists of inter-ethnic ties with people whose (business) identity is grounded in the same historical and institutional context as the Malaysian.

As shown, ethnic Chinese in Malaysia consider themselves Malaysian, but they feel Malaysian in a different way than the Malay do. As Ghorashi explains regarding Iranians in the United States, it is about “feeling different but the same”.⁴⁰ Although the SME managers have become more aware of their Malaysian identity, it would be wrong to assume that their ‘Malaysianness’ is the same as the ‘Malaysianness’ of the Malay population of Malaysia. Identities might be “the outcome of myriad individual acts of self-identification, free of deterministic chains in which politicians

³⁹ As stated by Aihwa Ong and Donald Nonini, eds., *Ungrounded Empires. The Cultural Politics of Modern Chinese Transnationalism* (New York, London: Routledge, 1997).

⁴⁰ Halleh Ghorashi, “How Dual Is Transnational Identity? A Debate on Dual Positioning of Diaspora Organizations,” *Culture and Organization* 10:4 (2004), 339.

and social scientists would love to wrap them”,⁴¹ but they might not be very “self-constituting, mutable, fluctuating, [and] unpredictable”⁴² since they come forth from, or are constructed out of, history. The question is: which part of history?

The Malay in general go back to the recent—independent—history of Malaysia, but this more recent history has not always been a very positive one for the ethnic Chinese living in Malaysia. As a consequence, the ethnic Chinese construct their identity from a different history than the Malay do. The Chinese primarily take the cultural heritage of British rule as an example. The foundations of the Malaysian legislative system were laid down within this British context—a system that is believed to provide justice within the country, and especially for people doing business. Besides knowing how to behave within this institutional context, Malaysian Chinese businessmen have confidence in this legislative system.

One could say that the Malaysian Chinese SME managers have a hyphenated identity. Living in a country that has at times acted in a hostile way towards its ethnic Chinese population has made them feel Chinese, but their experience as managers while cooperating with foreign ethnic Chinese, on the other hand, has made them feel more Malaysian. Therefore this research suggests that it is impossible to speak about Malaysian Chinese having either a purely Chinese or purely Malaysian identity. These transnational experiences show how Malaysian Chinese make use of a hyphenated identity while taking their business across the Malaysian border.

It would be interesting to take a closer look at literature on Chinese businesses in China because from this research it seems that these ethnic Chinese who are not residing in China are not so ‘Chinese’ after all. They do not feel attached to China as their ‘home country’, and they do not see Malaysia as their ‘host country’, as is so often stated in literature on ethnic Chinese businesses, or the so-called diaspora literature. This is also important with regard to the comfort zone in which business is carried out. This research shows that to cut costs SMEs create a comfort zone among like-minded people while transnationalising their business, and that this zone is identity-based, but not on ethnic identity. At the same time this study shows that this zone only gives comfort when participants behave according to the same ethics.

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Esther Zwart completed her Master’s Degree in Organizational Anthropology with a thesis on the silk trade in Cambodia. She subsequently conducted Ph.D. research at the Department of Culture, Organization and Management of the VU University of Amsterdam. This research resulted in a dissertation entitled ‘*In Pursuit of Comfort. The Transnationalisation Process of Malaysian Chinese Small and Medium Enterprises*’, which she successfully defended in November 2006. Currently she is working as a lecturer in the Department of Social Work, The Hague University of Professional Education.

⁴¹ Gregor Benton and Edmund Terence Gomez, *Chinatown and Transnationalism. Ethnic Chinese in Europe and Southeast Asia* (Canberra: Centre for the Study of the Chinese Southern Diaspora, 2001), 30.

⁴² Ibid.